

# Exhibit 3


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U.S. Securities and Exchange Commission

## SEC Charges Former KLA-Tencor CEO With Fraud For Improper Stock Options Backdating

**Commission Also Settles Claims Against KLA-Tencor**

**FOR IMMEDIATE RELEASE**  
**2007-143**

*Washington, D.C., July 25, 2007* - The Securities and Exchange Commission today filed charges against Silicon Valley semiconductor company KLA-Tencor Corporation (KLA) and its former Chief Executive Officer, Kenneth L. Schroeder, alleging that they engaged in an illicit scheme to backdate stock option grants.

The Commission alleges that, since 1997, KLA concealed more than \$200 million in stock option compensation by providing employees and executives with potentially lucrative "in-the-money" options while secretly backdating the grants to avoid reporting the expenses to investors. The Commission further alleges that Schroeder, of Los Altos Hills, Calif., repeatedly backdated options between 1999 and 2002, and once in 2005 - even after he received advice from company counsel that retroactively selecting grant dates without adequate disclosure was improper.

Linda Chatman Thomsen, the SEC's Director of Enforcement, stated, "KLA dramatically overstated its reported financial results, depriving investors of accurate information about the company's compensation costs and financial performance. It is especially troubling for a public company to engage in such misconduct even after being cautioned that these practices were impermissible."

The Commission's complaint against KLA, filed in federal district court in San Jose, Calif., alleges that former company executives routinely used hindsight to issue options to employees priced at or near KLA's lowest stock price of the preceding weeks. Although pricing the options below current prices required the company to report a compensation charge under well-settled accounting principles, former KLA officials avoided reporting the charges by falsely documenting that the options had been granted on an earlier date. The backdated grants resulted in materially misleading disclosures, with the Company overstating its net income in fiscal years 1998 through 2005 by as much as 156 percent.

In a separate complaint filed against Schroeder, the Commission charges that he repeatedly engaged in backdating after becoming CEO in 1999, including pricing large awards of options to himself that were "in the money" by millions of dollars - a potential windfall never disclosed to KLA-Tencor's shareholders. According to the complaint, Schroeder received a legal memorandum in March 2001 cautioning that "the Board and its committees are limited in their ability to grant options at a retroactive price without exposing the company to risk of an accounting charge." The memo

further warned that "[a]ny attempt to set a price before such a grant is made raises substantial risks under securities and tax laws [and] accounting rules and gives rise to disclosure obligations." The Commission alleges that Schroeder nonetheless continued to backdate options.

KLA-Tencor, without admitting or denying the allegations in the Commission's complaint, agreed to settle the matter by consenting to a permanent injunction against violations of the reporting, books and records, and internal controls provisions of federal securities laws. The Commission declined to charge the company with fraud or seek a monetary penalty, based in part on the company's swift, extensive, and extraordinary cooperation in the Commission's investigation, as well as its far-reaching remedial measures. KLA-Tencor's cooperation included an independent internal investigation and the sharing of the results of that investigation with the government. The company also took significant remedial actions in response to the findings of its internal investigation, including the implementation of new controls designed to prevent the recurrence of fraudulent conduct, removal of certain senior executives and board members, and the re-pricing and cancellation of retroactively-priced options held by several individuals.

Marc J. Fagel, Associate Regional Director of the SEC's San Francisco Regional Office, stated, "KLA-Tencor went to great lengths to clean house after discovering the fraud, and their cooperation greatly facilitated the government's investigation."

The complaint against Schroeder alleges that he violated, or aided and abetted, violations of the antifraud, record-keeping, financial reporting, internal controls, lying to auditors, equity transaction reporting and proxy provisions of the federal securities laws. The complaint also alleges Schroeder signed false certifications required by Section 302 of the Sarbanes-Oxley Act of 2002. The Commission is seeking injunctive relief, disgorgement of ill-gotten gains, and monetary penalties against Schroeder, in addition to an order barring him from serving as an officer or director of a public company. In addition, the complaint seeks reimbursement of bonuses and profits from stock sales pursuant to Section 304 of the Sarbanes-Oxley Act.

The Commission's investigation is continuing.

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United States Securities and Exchange Commission  
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► Additional materials: [Litigation Release No. 20207](#)

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